Attachment I: Policy Issues – DTS Network Rate Development

Policy Issue	Customer Impact
GENERAL COST RECOVERY **SUMMARY:** Implementation of the general principle that the rates charged for Network Services should recover the related costs. **Previously:** The revenues collected for Network Services for Gold Camp and Cannery customers in 2005-06 would need to be increased by 35 percent and 16 percent respectively in order for the service area to recover its costs. The two previous data centers had very different approaches to service delivery and cost recovery for network services. The two distinctly different rate schedules are currently in use and will continue to be employed through the 2006-07 fiscal year. **Now:** Service delivery models are already aligning. The network rates (whatever the structure) need to fully recover the costs of five areas (referred to as Rate Categories in Proposal): 1. Access Equipment 2. Access Site Support 3. Access Circuit 4. Backbone Support 5. Backbone Circuit Costs	**Financial:** Significant – The required increase in revenue needs to come from network rates in one manner or another. The critical issue is how the costs should be recovered (rate structure) – the DTS solution to this issue was proposed and approved in the mid-year rate package and used the five rate categories as a framework and an enterprise perspective when policy decisions were required. Decisions driven by the "enterprise perspective" had a material effect on determining how each customer would be affected by the required revenue increase.
OWNERSHIP/REFRESH OF EDGE EQUIPMENT (RATE CATEGORY 1) **SUMMARY:** Transferring from former Teale customers to DTS, the responsibility for refresh of edge equipment. **Previously:** Former Teale customers decided when to refresh equipment and paid purchase cost and maintenance (usually after three years) as a pass-through. **Now:** DTS controls the refresh of edge equipment and assumes an average useful life of five years for the purpose of cost recovery. The five-year cost of equipment and maintenance is totaled and split into 60 equal "lease" payments.	**Financial:** Minimal – The methodology is changing, but the net cost should stay very close to the same. This change just alters the timing of the payments. Net cost only changes to the extent that customer refresh cycles were different than the five-year proposed cycle. **Operational:** Increases the State's ability to manage edge equipment life cycles by centralizing that responsibility. This issue does not appear to be very controversial at this time – some customers are very supportive. Given that the lease charges will not begin until

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	current equipment is refreshed, this is more of an operational impact than a financial one and the change does not materially affect the cost recovery picture.

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RECOVERY OF BACKBONE COSTS **SUMMARY:** The backbone is a shared resource that must be recovered through rates in a reasonably equitable way. Rate Categories 4 and 5 represent DTS proposal for recovery. Rate Category 4 recovers the hardware and Support Cost for the Backbone – The DTS totaled the support cost and divided it by the total number of Customer Access Circuits. Rate Category 5 recovers the Circuit Costs of the Backbone – The DTS proposes that this cost be recovered as a charge of 25 percent of the customer's access circuit costs because Total Backbone circuit costs equal approximately 25 percent of the Total Access circuit costs. **Previously:** The Cannery network did not employ a Backbone-based architecture. As a result of the Distribution Layer move, these customers are now on the backbone and many Cannery customers have seen savings (even under the new rate structure) due to the elimination of interlata (long-distance) charges. The current CSGnet rate schedule, which has not been materially changed in 20 years, bundles the recovery of backbone costs with the access site support charge. However, there is a great disparity between the monthly support rate for sites that connect directly to the backbone ($5,000, $1,000 and $700) and those that do not ($200). In many cases, this has led customers and CSGnet Network Engineers to design networks that minimize connections to the Backbone. **Now:** Customers will be charged for backbone costs regardless of the number of connections directly to the backbone or the exact volume of traffic that traverses the backbone. This structure was applied from an enterprise perspective in that the backbone provides a robust, redundant infrastructure for interlata transfer of data. If a customer chooses not to	**Financial:** Very Significant for CSGnet customers that have a minimum of direct connections to the backbone. However, most Cannery customers are seeing savings because 1) the magnitude of general under-recovery was less and 2) the elimination of interlata charges that resulted from connecting to the backbone as part of the Distribution Layer Move project provided significant offsets to the Backbone recovery charges. **Operational:** Customers impacted the most may need to pursue design changes that would mitigate the cost increases. In most, if not all cases, this will reduce the cost to the state, even if it does not completely mitigate the specific customer's financial impact. Further, there are customers that assert that there are operational reasons for maintaining minimal connections to the DTS backbone. These should be evaluated in the context of an Enterprise Architecture/Policy and if it is determined that there are operational needs that make the assumptions made in the rate package invalid, the appropriate changes to the rate package should be made. **This is the most controversial policy issue for customers**.

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use it, the State is in effect paying for interlata connectivity twice; once for the backbone and again through the long distance charges applied to the customer's interlata connections. The proposed rate package would pass this "double-charging" to the customer as they would pay the long distance through Rate Category 3 and a share of the backbone through Rate Category 5.	